

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6469

BILL NUMBER: SB 128

NOTE PREPARED: Jan 17, 2009

BILL AMENDED:

SUBJECT: Phased-in Reduction in State Income Tax Rates.

FIRST AUTHOR: Sen. Buck

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides for a reduction of the Adjusted Gross Income Tax rates that apply to resident, nonresident, and corporate taxpayers in an even-numbered year by 0.1% if revenues collected from the Adjusted Gross Income Tax in the immediately preceding two state fiscal years increased by at least 3%. The bill limits the permissible total decrease in tax rates to 0.5%.

Effective Date: July 1, 2009.

Explanation of State Expenditures:

Explanation of State Revenues: *Summary* - The bill could potentially reduce revenue from the Adjusted Gross Income (AGI) Tax on individuals by \$52.7 M in FY 2010 and \$120.9 M in FY 2011. The bill would not affect revenue from the Corporate AGI Tax.

Background Information - The bill would reduce the Individual AGI Tax rate or Corporate AGI Tax rate, as applicable, beginning in an even-numbered tax year if net revenue (after refunds) from the tax in the immediately preceding biennium grew by more than 3% over the next previous biennium. The tax rate would be reduced by 0.1% from the rate in effect during the odd-numbered year immediately prior to the even-numbered year in which the reduction is first implemented. The first year in which rate reductions could occur under the bill is tax year 2010. Under the bill, the Individual AGI Tax rate could not be dropped below 2.9% over time, and the Corporate AGI Tax rate could not be dropped below 8% over time.

It is estimated that net revenue from the Individual AGI Tax collected during the FY 2008-2009 biennium

could potentially grow by 7% over the FY 2006-2007 biennium. This would result in the tax rate being dropped from 3.4% to 3.3% beginning in tax year 2010. The revenue loss from this rate reduction is based on the Revenue Technical Committee's FY 2010 and FY 2011 forecast (December 11, 2008) for the Individual AGI Tax and assumes a base elasticity of -0.17. The revenue loss for FY 2010 assumes an impact for one-half year.

It is estimated that there could potentially be a decline in net revenue from the Corporate AGI Tax collections of about 11.6% from the FY 2006-2007 biennium to the FY 2008-2009 biennium. Consequently, no reduction in the Corporate AGI Tax rate would occur in tax year 2010. The revenue growth rates for the Individual AGI Tax and the Corporate AGI Tax during the FY 2008-2009 biennium are based on actual collection totals for FY 2006, FY 2007, and FY 2008, and the Revenue Technical Committee FY 2009 forecast (December 11, 2008) for both taxes.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: *Indiana Handbook of Taxes, Revenues, and Appropriations - FY 2008*, Legislative Services Agency, pp. 24 & 70; *Revenue Technical Committee Forecast*, December 11, 2008.

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